

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6236**

**BILL NUMBER:** HB 1878

**NOTE PREPARED:** Feb 2, 2003

**BILL AMENDED:**

**SUBJECT:** Property Tax Deduction for Senior Citizens.

**FIRST AUTHOR:** Rep. Duncan

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**

**X**

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill changes the requirements for the property tax deduction available to individuals who are at least 65 years of age to allow an individual to claim the deduction if either the assessed valuation of the individual's real property, mobile home, or manufactured home is less than \$69,000 or the combined adjusted gross income of the individual's household is less than \$25,000. (Current law requires an individual to satisfy both requirements to claim the deduction.)

**Effective Date:** January 1, 2004.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** Changes in the property tax deduction will affect revenue for the State Fair and State Forestry funds. The net reduction in income to these funds is estimated to be \$15,000 per year.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Current law provides for a property tax deduction of the lesser of \$6,000 or one-half the assessed value of the taxpayer's real property, mobile home, or manufactured home for taxpayers who are at least 65 years of age, if the assessed value is less than \$69,000, *and* the combined adjusted gross income of the taxpayer's household is less than \$25,000. This bill would allow taxpayers who are at least 65 years of age to claim the deduction if *either* one of the two conditions is met.

The total value of this deduction for all Indiana counties for CY 2000 through CY 2002 is given in the Table 1 below. The maximum deduction of \$2,000 was increased in CY 2002 to \$6,000 as a consequence of the change in assessed value from 33% of true tax value to 100% of true tax value; the "Adjusted Actual" line in the table inflates CY 2000 and CY 2001 deductions threefold in order to make them comparable to CY 2002 deductions.

<b>Table 1 - CY 2000 - CY 2002 Over 65 Deduction Totals</b>			
<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Actual</b>	\$200 M	\$203 M	\$612 M
<b>Adjusted Actual</b>	\$601 M	\$610 M	\$612 M

Table 2 below contains estimates of the total value of the deduction for CY 2003 through CY 2006 under the current law and the estimated value of the deduction for CY 2004 through CY 2006 under this bill. Increases in deductions reduce the assessment base used to compute the rate for property taxes, resulting in a rate increase. The increase in the net tax rate shifts taxes to those not eligible for the deduction. The change in the statewide net average tax rate and the tax shift for CY 2004, CY 2005, and CY 2006 are also provided in Table 2.

<b>Table 2 - CY 2003 - CY 2006 Estimates Under Current Law and This Bill</b>					
<b>Year</b>	<b>Deduction Current Law</b>	<b>Deduction This Bill</b>	<b>Estimated Deduction Increase</b>	<b>Estimated Tax Shift</b>	<b>Estimated Increase in Net Rate</b>
<b>CY 2003</b>	\$295 M	-	-	-	-
<b>CY 2004</b>	\$294 M	\$758 M	\$ 464 M	\$9.0 M	0.0034
<b>CY 2005</b>	\$292 M	\$757 M	\$ 464 M	\$9.1 M	0.0033
<b>CY 2006</b>	\$291 M	\$755 M	\$ 463 M	\$9.3 M	0.0033

These cost estimates and the estimates of property tax shifts that were calculated for HEA 1001-2002(ss) assumed that total deductions would remain unchanged. The estimate under current law for CY 2003 is that the total value of this deduction will drop from \$612 M in CY 2002 to \$295 M in CY 2003. This is a consequence of reassessment. Table 3 below compares the \$612 M total for the deduction assumed in the analysis for HEA 1001-2002(ss) to the estimated total deduction for CY 2004 through CY 2006 under this bill. Changes in the estimated net tax rate and the resulting tax shift are also provided in Table 3.

<b>Table 3 - Comparison of This Bill to HEA 1001-2002(ss) Assumptions</b>				
<b>Year</b>	<b>Deduction This Bill</b>	<b>Deduction Increase</b>	<b>Estimated Tax Shift</b>	<b>Estimated Increase in Net Rate</b>
<b>CY 2004</b>	\$758 M	\$146 M	\$2.8 M	0.0011
<b>CY 2005</b>	\$757 M	\$145 M	\$2.9 M	0.0010
<b>CY 2006</b>	\$755 M	\$143 M	\$2.9 M	0.0010

*Estimation Note:* These estimates are based on 2000 state income tax data which contains adjusted gross income and property tax deductions for taxpayers age 65 or older. Real property assessed values for CY 2000 were estimated using the relationship between property tax and assessed property values observed in 313,000 Indiana parcels. The taxpayer adjusted gross income for CY 2001 through CY 2006 was estimated using a 2% per annum inflation factor. Assessed property values for CY 2003 through CY 2005 were estimated by multiplying the CY 2000 estimate by 2.08, the estimate for the effects of reassessment produced by the tax shift model used to estimate the effects of HEA 1001-2002(ss). Property tax bills were estimated by inflating the CY 2000 tax bill by 1.5% per annum and then applying the tax shift factor from the HEA 1001-2002(ss) tax shift model. The estimates of the total value of deductions were then increased to allow for population growth in the state following Bureau of the Census estimates.

**State Agencies Affected:** State Fair Board; Department of Natural Resources.

**Local Agencies Affected:** County auditors.

**Information Sources:** Indiana Department of Local Government Finance LOGODABA database, Indiana Department of State Revenue 2000 Database, LSA Property Tax Database, U.S. Bureau of the Census.

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